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SUBJECT: TAIWAN 2006 INVESTMENT IN CHINA REACHES NEW HIGH

REF: 06 TAIWAN 4164

¶1. (U) Summary: Taiwan and PRC official data for planned Taiwan investment in Mainland China both reached new highs in 2006. Taiwan's approved investment in China grew 27.2 percent from 2005 to US\$7.64 billion. The rise was due to a dramatic increase in the size of investment projects. End summary.

Approved Investment Surges

¶2. (U) Taiwan's 2006 approved investment in China grew 27.2 percent from 2005 to reach US\$7.64 billion according to data from Taiwan's Ministry of Economic Affairs Investment Commission (MOEA/IC). This marked a dramatic reverse from the 13.5-percent decline in ¶2005. The PRC maintained its position as the predominant destination for Taiwan foreign investment, but its share of Taiwan's total foreign direct investment (FDI) declined to 63.9 percent from 71.0 percent in 2005. MOEA/IC data on approved investment is provided below:

Year	Cases	Approved Amount (US\$ billion)	Percent Change	Percent of Total FDI
2004	2,004	6.94	51.1%	67.2%
2005	1,297	6.01	-13.5%	71.0%
2006	1,090	7.64	27.2%	63.9%

¶3. (U) The average size of approved investment projects rose sharply as the number of cases fell. In 2006, MOEA/IC approved 1,090 investment proposals, down from 1,297 in 2005. However, the average size rose to US\$7.0 million from US\$4.6 million.

¶4. (U) MOEA/IC attributed the surge to investment expansion by large Taiwan firms financed with revenue earned in the PRC. Hon Hai Precision Industries, for example, was approved to invest US\$90 million and US\$100 million in two separate projects. Hon Hai has been identified as the largest exporter and foreign exchange earner in the PRC. In addition, large semiconductor projects were approved after further

relaxation of Taiwan's investment policies for that industry. Advanced Semiconductor Engineering Inc. received approval to purchase a PRC semiconductor packaging and testing firm for approximately US\$60 million and ProMOS Technologies was authorized to build a US\$365 million chip factory (reftel). (Note: The approval granted to Powerchip Semiconductor Corporation in December 2006 to build a semiconductor plant was preliminary pending submission of further documentation. That investment will appear in MOEA/IC's 2007 data. End note.)

East and South China Dominate

15. (U) Coastal provinces continue to be the main destinations for Taiwan investment in the PRC. Jiangsu Province took the lead with over 37.7 percent of Taiwan's investment in the Mainland, followed by Guangdong, Shanghai City, Zhejiang, and Fujian. Together the five top areas accounted for 84.3 percent of Taiwan's China investment. However, their percentage share of total approved investment in China fell from 91 percent in 2005. The largest increase outside of the top five areas was in Chongqing City, where the approved investment in the ProMOS semiconductor facility drove up investment from US\$12.8 million in 2005 to US\$398.3 million in 2006. The following chart shows the number of approved cases for each province with the total amount of approved investment:

-- Approved Amount Percent of

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Location	Cases	(US\$ million)	Total
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Jiangsu	282	2,883	37.7%
Guangdong	245	1,415	18.5%
Shanghai	190	1,042	13.6%
Zhejiang	52	591	7.7%
Fujian	155	520	6.8%
Others	166	1,191	15.7%
PRC Total	1,090	7,642	100.0%

16. (U) A recent report by the Taiwan Business Association in Shenzhen indicated that Taiwan enterprises in Shenzhen, Guangzhou, Dongguan, and other cities in the Pearl River Delta area have faced a less favorable investment environment in 2006. It complained of rising production costs, shortages of electricity and water, and new local government policies forcing enterprises with high rates of energy consumption and waste production to move elsewhere. Others have noted a trend of labor-intensive manufacturing moving away from coastal areas or out of China to Vietnam and India. However, approved investment in Guangzhou continued to grow in 2006, rising 16.0 percent.

Focus Still on Electronics

17. (U) Taiwan's investment in Mainland China is increasingly concentrated in manufacturing of electronic goods, components and machinery. These categories accounted for 44.8 percent of total 2006 Taiwan investment in PRC compared to 39.9 percent a year earlier. Investment in electronic components, used mainly in manufacturing of PCs, cell phones and other IT hardware, was the largest single category with approved investment valued at US\$1.6 billion, a 90.4 percent increase over the previous year. Two non-manufacturing industries also increased their share of total investment. Wholesale and retail trade and special, scientific and technical services

accounted for 4.1 percent and 3.0 percent of total investment, respectively. The following chart shows Taiwan investment data for the top ten major industrial categories:

-- Industry	Cases	Amount (US\$ mil.)	Percent of Total
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Electronic components	94	1,619	21.2%
Computers, Telecom.			
A/V equipment	73	1,140	14.9%
Electrical machinery	105	665	8.7%
Chemicals	49	548	7.2%
Metals and metal goods	72	447	5.8%
Precision, optical			
--medical equipment	49	423	5.5%
Machinery	94	389	5.1%
Non-metallic minerals	23	387	5.1%
Wholesale and retail			
--trade	150	313	4.1%
Special, scientific			
--& technical services	62	232	3.0%
Plastic products	48	220	2.9%
Textiles	41	165	2.2%
Others	230	1,094	14.3%
Total	1,090	7,642	100.0%

PRC Data - Opposing Trends

18. (U) PRC data on Taiwan investment showed two opposing trends. Figures for contracted value of Taiwan investment rose 9.5 percent from US\$10.3 billion in 2005 to US\$11.3 billion last year. Contracted investment has now increased for four consecutive years. Like Taiwan's data on approved investment, contracted investment reflect the intentions of Taiwan firms to invest in the Mainland. However, PRC data for realized investment, which

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attempts to measure dollars actually spent by Taiwan investors, declined for the fourth straight year to US\$2.1 billion.

19. (U) According to our conversations with government officials, academics and industry leaders, there are several possible explanations for the growing differences between contracted and realized investment. First, Taiwan firms may exaggerate the value of their contracted investment with the encouragement of local PRC officials eager to show rising levels of investment in their jurisdiction. Second, PRC macroeconomic controls may delay central government approval for projects that have already been contracted. Finally, realized investment figures may not capture all of the money spent by Taiwan investors in the PRC. Realized investment figures are based on funds remitted through banks to the PRC. Taiwan investment in the Mainland is increasingly financed with profits earned locally instead of funds remitted from Taiwan. In addition, financing remitted from Taiwan must be remitted indirectly through a third territory such as Hong Kong, the British Virgin Islands and other tax havens. Some of these funds may not be identified as Taiwan investment in the PRC realized investment statistics.

Comment - Taiwan Firms Still Eager to Invest

10. (SBU) Despite another decline in realized investment, the Taiwan approved investment and PRC contracted investment data both suggest that the intentions of Taiwan firms are clear. They are still eager to expand their investment in the PRC, and the

scale of that investment is growing. Cross-Strait
economic integration continues to deepen.
WANG